

PYRAMID SCHEMES

FRAUDULENT PRODUCTS involving insurance sometimes are sold through multi-level marketing—or “pyramid”—schemes that usually are promoted through such low budget means as flyers, word of mouth and grocery store bulletin board notices.

At the heart of all pyramid schemes is the recruitment of salespeople who share their commissions with the recruiter. Theoretically, a good recruiter can sit back and collect commission checks without selling anything. These grandiose dreams seldom, if ever, come true.

Pyramid schemes in the sale of insurance are illegal because licensed agents cannot legally share commissions with unlicensed people.

A CASE STUDY:

An individual who held no license as an insurance agent or securities dealer, began offering a “CORPORATE SUBSIDY BOND”, which was issued on the paper of a non-existent insurer. It gave the holder interest rates varying between 15% and 20% and gave the false impression that it was government backed. In early 1998, the daughter of an investor came to the Department of Insurance and supplied a copy of the \$10,000 bond. The Department contacted the Attorney General’s Office and law enforcement agencies, which led to the arrest of the perpetrator two weeks after the Department received the call from the investor’s daughter. Unfortunately, many others did not have the same savvy friends or relatives and over 1,000,000 of investor dollars were placed with this individual. The earlier investors may have recouped some or all of their investment but many were left holding the bag. An overused cliché is appropriate here...IF IT SEEMS TOO GOOD TO BE TRUE, IT PROBABLY IS!

DEFENSES AGAINST PYRAMID SCHEMES

ASK YOURSELF: What am I putting at risk? What are the odds that this will make money?

ASK THE MARKETERS TO IDENTIFY the insurance company issuing the policy or policies connected with the plan. If they can’t, it spells t-r-o-u-b-l-e. If the marketers identify the company, call the company to verify their story. If the marketers tell you not to bother the company, or won’t give you a phone number, they’re hiding something. Call the NH Dept of Insurance for assistance.

READ CAREFULLY any policy you are shown and make sure you know what your rights and obligations would be.

BE SURE THE MARKETER IS A LICENSED AGENT if your membership application authorizes someone to buy insurance on your life. The application itself must meet several requirements, including clear identification of the insurance company.

NOTIFY THE NH INSURANCE DEPARTMENT FRAUD UNIT if someone tell you an insurance product really isn’t insurance and is exempt from state regulations. This is a common pitch in cases involving insurance fraud.

ASK THE MARKETERS TO IDENTIFY who will lend money to buy a policy or make loans secured by a policy's cash value. Loans to buy a policy should be from an authorized lending institution or a licensed premium finance company. Carefully study any premium finance agreement or loan document. What is the rate of interest? Who is liable for payments on your premium finance loan?

TOLL FREE LINE

1-800-852-3416